SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

APPLICATION OF SOUTHWESTERN	§	BEFORE THE STATE OFFICE
ELECTRIC POWER COMPANY FOR	§	OF
AUTHORITY TO CHANGE RATES	§	ADMINISTRATIVE HEARINGS

REPLY BRIEF OF NUCOR STEEL LONGVIEW, LLC

July 1, 2021

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NUCOR STEEL LONGVIEW, LLC

I. Introduction/Summary [Preliminary Order (PO) Issues 1, 2, and 3]

On June 17, 2021, Nucor Steel Longview, LLC ("Nucor") filed its Initial Brief in this docket. Nucor files this Reply Brief to respond to issues raised in the Initial Briefs of Southwestern Electric Power Company ("SWEPCO" or "the Company") and Cities Advocating Reasonable Deregulation ("CARD").[1] Nucor submits this brief to address only those issues identified in Section VII (Revenue Distribution and Rate Design) of said briefs. In addition to the issues addressed in this brief, Nucor reaffirms the positions set forth in its Initial Brief.

VII. Revenue Distribution and Rate Design [PO Issues 4, 5, 47, 48, 52, 59, 60, 61, 62, 75, 76, 77, 78, 79]

A. Rate Moderation / Gradualism [PO Issue 52]

1. When allocating revenues, the Commission should consider TCRF and DCRF revenues in SWEPCO's current base rate revenues

SWEPCO claims that its proposed revenue adjustments appropriately consider costs recovered through the Transmission Cost Recovery Factor ("TCRF") and Distribution Cost Recovery Factor ("DCRF") charges.[2] It appears that SWEPCO is arguing that once the revenue requirement is determined in this case, then the TCRF and DCRF revenues will be appropriately distributed to the proper classes.[3] However, as explained in Nucor's Initial Brief, in order to appropriately identify the revenue to be allocated to SWEPCO's respective rate classes, the Public

[1] All exhibit page numbers cited reflect the page numbers shown on the exhibits admitted at the hearing on the matter. Per SOAH Order Nos. 4 & 13, where there could be confusion, the type of page number cited herein is identified in the initial citation to the particular exhibit.

[2] *See* Southwestern Electric Power Company's Initial Brief at 120-21 (June 17, 2021) ("SWEPCO Initial Brief").

[3] *See id* at 121 ("After the appropriate adjustment to base rates is determined to assure full recovery based on the class cost of service study, SWEPCO's revenue distribution indicates the rate class bill impact associated with the change in the TCRF and DCRF revenues recovered during the test year.").

Utility Commission ("Commission") should use current base rate revenues that include both the base rate revenues and the TCRF and DCRF revenues.[4] Essentially, the issue with SWEPCO's approach is that the present revenue levels reflected in their proposed revenue distribution proposal do not include TCRF/DCRF revenues, while the proposed revenue levels do include the TCRF/DCRF revenues. SWEPCO's approach to base rate revenue comparison "distorts the effect of SWEPCO's proposed base rate revenue increase on the rate classes."[5] Therefore, in order to develop a proper revenue distribution as described in Nucor witness James W. Daniel's Direct Testimony and Nucor's Initial Brief, the current base rate revenues should include both the base rate revenues and the TCRF and DCRF revenues.

2. The Commission should approve a revenue distribution that sets rates at or near cost-based rates

As detailed in Nucor's Initial Brief, the Commission should approve Nucor witness James W. Daniel's proposed revenue distribution. Alternatively, the Commission should approve a revenue distribution that incorporates Daniel's distribution objectives, such as SWEPCO's rebuttal revenue distribution, subject to certain modifications.[6] The Commission should reject CARD's proposed gradualism approach, as discussed below.

3. The revenue shortfalls resulting from rate moderation should be applied to all classes that receive below average base rate revenue increases

CARD recommends that the Commission reject Nucor witness Daniel's gradualism proposal whereby any revenue shortfalls resulting from implementing his proposed rate-increase cap are distributed to all rate classes that receive below average base rate revenue increases.[7] As an alternative, CARD recommends that revenue shortfalls resulting from a cap on rate increases be assigned within the respective major class groupings proposed in SWEPCO's direct testimony

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[4] *See* Initial Brief of Nucor Steel Longview, LLC at 4-5 (June 17, 2021) ("Initial Brief of Nucor"). The Commission Staff similarly recommends that "the proper evaluation of SWEPCO's proposed rate increase should compare the proposed base rate revenues to present base rate test year revenues including TCRF and DCRF revenues because such an approach reflects the total base-rate-related revenues that customers are paying." *See* Commission Staff's Initial Brief at 71 (June 17, 2021) (quoting Direct Testimony of Adrian Narvaez, Staff Exhibit 4 at 16:15-18).

[5] *See* Nucor Direct Testimony of James W. Daniel, Nucor Exhibit 1 at 14:8-13 (native page no.).

[6] *See* Initial Brief of Nucor at 4-7.

[7] *See* Cities Advocating Reasonable Deregulation's Initial Post-Hearing Brief at 73-74 (June 17, 2021) ("CARD Initial Brief").

(i.e., Cotton Gin's revenue shortfall would be assigned to the commercial customer group, etc.)[8] However, in order to move rates closer to unity, while considering gradualism and avoiding rate shock for certain classes, Daniel's proposal to assign the revenue shortfall to classes that receive a below average base rate increase should be adopted.

CARD's revenue distribution proposal would result in less equitable rates by moving classes away from unity. CARD highlights that the residential class would receive 85% of the revenue shortfall by implementing Daniel's gradualism proposal.[9] While it is true that the residential class is allocated part of the revenue shortfall under Daniel's proposal, overall, the residential class sees a smaller overall increase than most other rate classes (23%), and Daniel's revenue distribution results in a relative rate of return ("RROR") for the residential class of 1.0, or unity.[10] Conversely, if the Commission were to adopt CARD's alternative proposal, whereby the revenue shortfalls from a subsidized class were to be assigned only to other classes within the respective major class groupings, then the commercial and industrial classes would receive the bulk of the revenue shortfalls, and the residential class would avoid any gradualism-based revenue shortfall allocation, which would move all classes further from unity. Based on Daniel's revenue distribution, most of these classes are already receiving close to a 30% increase.[11] Lastly, under CARD's proposal to distribute revenue shortfalls to other classes within the same group, in the hypothetical situation where the residential class were under-recovering its cost of service, there would be no other class to which to distribute any revenue shortfall because the residential class is the only class within the residential group.[12] Therefore, in order to both move classes closer to their cost of service and to assign the revenue shortfalls resulting from applying rate moderation to certain classes more equitably, the Commission should adopt Nucor's recommended revenue distribution and gradualism proposal, as reflected in Daniel's direct testimony and Exhibit JWD-6.

XI. Conclusion

Wherefore, Nucor respectfully requests that the ALJs issue a proposal for decision, and the Commission issue an order, adopting Nucor's recommendations reflected in its Initial Brief. In

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[8] *Id*

[9] *Id.* at 73.

[10] *See* Nucor Direct Testimony of James W. Daniel, Nucor Exhibit 1, Exhibit JWD-6 & Exhibit JWD-7.

[11] *Id.*

[12] Tr. at 1256:10-24 (Jackson Cross) (May 25, 2021).

doing so, the Commission should (1) consider TCRF and DCRF revenues in current base rate revenue in any approved revenue distribution, and (2) adopt a rate moderation proposal that assigns revenue shortfalls to all classes that receive below average base rate revenue increases.

Respectfully submitted,

STONE MATTHEIS XENOPOULOS & BREW, PC

/s/ *Damon E. Xenopoulos*
Damon E. Xenopoulos
Laura Wynn Baker
Joseph R. Briscar
1025 Thomas Jefferson Street, N.W.
Suite 800 West
Washington, DC 20007
(202) 342-0800
(202) 342-0807 – Fax
dex@smxblaw.com
lwb@smxblaw.com
jrb@smxblaw.com

AUTHORIZED REPRESENTATIVES FOR NUCOR STEEL LONGVIEW, LLC

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was served via electronic transmission, hand delivery and/or U.S. mail to all parties of record this 1st day of July 2021.

/s/ *Camie Flowers*
Camie Flowers